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SUBJECT: MEXICO ECONOMIC NOTES, DECEMBER 7 - DECEMBER 13 --
CORRECTED COPY

REF: A. MEXICO 6823

[1](#)B. MEXICO 5854

Summary

[1](#)1. (U) The first budget from the Calderon Administration, for fiscal year 2007 (ref A) was met by loud protests over proposed funding levels for education and infrastructure, as well as an increase in the tax for soft drinks. A detailed cable regarding contentious parts of the budget will follow. The Mexican legislature seems likely to pass legislation complying with the recent WTO decision on long-grain rice, but may refuse the government's proposed tax on soft drinks which would also bring Mexico into compliance with the WTO decision on Mexico's unfair beverage sweetener tax. Broadcast duopolists TV Azteca and Televisa have been using the airwaves for attacks on their rival's Mexican company Casa Saba and its U.S. partner GE/NBC. According to press reports, China-based Giant Motors is opening a light truck production plant in Hidalgo. Calderon announces anti-poverty program geared at poorest 100 towns. Inflation falls while financial markets continue to rally. Finally, biographic information is provided on new Under Secretaries in the Secretariats of Energy and Transportation and Communication.

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End Summary.

Cuts to Public Spending on Infrastructure

[1](#)2. (U) According to leading analysts, the proposed 43 percent cut in funding for the Secretariat of Transportation and Communication (SCT) is part of the administration's strategy to replace government investment with private investment. Calderon's federal spending bill, presented to Congress for approval last week, would give the agency responsible for overseeing transit infrastructure 27.6 billion pesos (2.45

billion USD) in 2007 - a significant reduction from FY 2006. While the Mexican Constitution limits private participation and investment in public infrastructure, the federal government has experimented in recent years with contracts in which companies are hired to complete infrastructure projects (schools, prisons, highways, etc.) which the government then pays to use. Recently, the new Secretary of Transportation and Communication, Luis Tellez, stated that the government is looking for methods that allow private sector participation in the construction of highways, bridges and roads in order to reduce the level of federal resources directly involved.

Concerns Rising Over Education Cuts

13. (U) The administration's proposed level of education funding has set off a firestorm of protest. Lawmakers from the two major opposition parties, PRD and PRI, formed a working group to restore the slashed education funds before the Chamber of Deputies approves a final budget sometime this month. The Chamber's Policy Coordination Board, controlled by the PRI, will present a resolution calling for the protection of the universities from any budget cuts. Reactions to Calderon's proposed education cuts were so heated over the weekend that even Education Secretary Josefina Vazquez Mota promised to urge the Finance Secretariat to reconsider the decrease, which amounts to a

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1.2 percent cut, or about 415 million USD. Some lawmakers grumbled that the cuts aimed at the universities may have been politically motivated. UNAM, which recently broke into the top 100 list of worldwide universities, has traditionally nurtured leftist thinkers opposed to the conservative policies of Calderon's National Action Party (PAN).

14. (U) Comment: While spending on education in the Calderon government's 2007 budget proposal fell by 1.2 percent in real

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terms when compared to an estimate of what was actually spent on education in 2006, it increased by 4.2 percent when compared to the approved 2006 budget. Some educational experts in Mexico criticized the government for diverting funding to the universities at the expense of Mexico's poor, most of who never have a chance to get to universities, or even a decent education, because of the lack of reform and funding for primary and secondary education (see ref b and septel). End Comment.

Soft-Drink Makers Enraged By Proposed Beverage Tax

15. (U) Mexican soft-drink makers vociferously urged Congress to reject a proposed tax increase, saying it would hurt not only the companies that produce the beverages, but also low-income families who spend nearly as much on soda as on basic products like beans and tortillas. The National Association of Soft Drink and Carbonated Water Producers took out a full-page ad in Mexican newspapers in which they also claimed that the proposed 5 percent excise tax - which would come on top of a current value-added 15 percent tax - would result in a drop in demand, loss of jobs, and a reduction in the demand for sugar. The new administration included the tax in its 2007 budget proposal. The proposal is linked to the dropping of the 20 percent tax on beverages made with non-sugar sweeteners in order to comply with a WTO decision against such discrimination.

16. (U) On another WTO issue, PRI Senator Cant#, President of the Senate's Trade and Industry Commission reported that the Chamber of Deputies has passed the bill (already approved by the Senate in November) changing the antidumping provisions of Mexico's Foreign Trade Law. The new provisions grant accused exporters more time to present their cases to the government and also no longer require that the highest

retaliatory rate be applied. The change was made to comply with the lost WTO ruling on long-grain rice.

PAN Lawmakers State Willingness To Reallocate Resources

17. (U) The Chairman of the Finance Committee of the Senate, Gustavo Madero (PAN), asserted that PAN legislators are willing to make moderate corrections to Calderon's budget proposal. He claimed confidence that agreement will be reached and the 2007 budget will be approved by all political parties. (Mexican law requires the budget to be approved by December 31, 2006.) Common points of convergence between the parties will prevail over "small discrepancies." Jorge Estefan (PRI), Chairman of the Finance Committee of the Chamber of Deputies, however, warned that the 5 percent tax on beverages would have to be discussed more with the beverage industry to determine to what extent the impact of this tax can be absorbed. He worried that approving a tax that was unaffordable would ultimately result in higher prices.

Duopolist attacks GE

18. (U) Broadcast duopolist TV Azteca, which along with Televisa has in recent weeks frequently denounced Casa Saba on the airwaves for what they term monopolistic practices in the pharmaceutical industry, stepped up its attacks on Casa Saba to include GE, Saba's American partner in the TV market through Grupo Extra. In early news broadcasts, TV Azteca and Televisa concentrated on the high cost of medicines in Mexico, pinning the responsibility on Grupo Saba and accusing it of "sentencing to death" Mexicans who are ill. On December 7, however, TV Azteca further upped the stakes, focusing its attacks on members of the Saba family and drawing the line between Grupo Saba and GE, which it accused of monopolistic

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practices and fraud. Azteca's new programs referred to GE's "dirty history" of the 1980s and 1990s and accused Casa Saba of "extending its tentacles" in Mexico with the help of GE, "profiting from the health and well being of Mexicans." GE's general director in Mexico defended the company in the next days on radio and in newspapers. So far, Televisa has not joined in TV Azteca's attacks on GE. Comment: The attacks are likely inspired by Grupo Saba's request for a license to open frequencies for a new television channel, probably in conjunction with GE/NBC's Telemundo, which would threaten the Televisa/TV Azteca dominance of Mexican television content. End Comment.

Chinese company will assemble trucks in Hidalgo

19. (U) According to press reports, the Chinese company Giant Motors will open a plant in Hidalgo to produce light trucks with an initial investment of MP 180 million (16.7 million USD). First year manufacturing numbers are expected to reach 2,800, 15 percent of which will be exported. The company reportedly plans to create 700 jobs with a total investment reaching 500 million pesos (46.3 million USD). The company is reported to be making alliances with national suppliers to reduce the number of imported spare parts. The units will be distributed in Mexico through a joint-venture with Grupo Bler in Monterrey, Guadalajara, Ciudad Obregon and Chihuahua.

Calderon announces program for the poor

110. (U) On December 6, Calderon announced a program to help the country's 100 poorest communities. Guerrero Gov. Zeferino Torreblanca, a member of the PRD, attended Calderon's ceremony in Tlacoachistlahuaca, which the press noted was a sign that partisan solidarity with Lopez Obrador may be trumped by the need to cooperate with aid-bearing

federal officials. In Tlacoachistlahuaca, Calderon urged Mexicans to bury their differences over the election and focus on the nation's problems. He said his anti-poverty program will draw money from several federal agencies and will be duplicated in 100 deeply poor towns where people suffer malnutrition and disease and lack roads and clean water.

Inflation falls in November on fruit prices

¶11. (U) Annual inflation slowed in November on falling prices for tomatoes, avocados and oranges, ending a three-month spike which brought the inflation rate above the central bank's target range of 3 percent plus or minus 1 percentage point. The inflation rate fell to 4.1 percent in the 12 months ending in November from 4.3 percent in October. Slowing inflation heightens speculation the central bank may begin lowering its benchmark lending rate from 7% in the first quarter of next year, however, according to a recent Bloomberg survey of 15 economists, policy makers will leave the benchmark rate unchanged during their next meeting. Core consumer prices rose 0.29% in November after rising 0.27% in October. The increase in core prices was above the 0.26% median forecast in the Bloomberg survey.

Financial markets continue to rally

¶12. (U) The peso keeps recovering and yesterday closed at \$10.84 pesos per dollar due to less uncertainty among investors regarding Mexican paper, more remittances, Christmas bonus and the low demand for dollars from holdings. Yields in the secondary market also declined and the 10-year peso-denominated bond closed at 7.48 percent. The stock market hit its 54th record during the year closing at 25,615.

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Secretariat of Energy Appointments

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¶13. (U) Secretary of Energy, Georgina Kessel, appointed Ruben Flores Garcia as Under Secretary of Electricity, Jordy Herrera as Under Secretary of Energy Planning, and Mario Gabriel Budebo as Under Secretary of Hydrocarbons. Flores Garcia was previously Director of Distribution and Electricity Storage. He has a degree in electromechanical engineering from the Instituto Tecnologico de Monterrey and a MBA from the Autonomous University of Guadalajara. He was also commissioner of the Energy Regulatory Commission (CRE) and director of the electrical system at the Mexican electricity monopoly (CFE). Herrera was previously Director General of the Energy Secretariat's Investment Promotion Unit. He has a Bachelors degree in economics from Universidad Iberoamericana and also has professional certificates in economics, politics and marketing. He was the Secretary of Energy's executive assistant in 2003. Budebo was formerly Chair of the National Retirement Saving Commission (CON SAR). He has a Bachelors in economics from Instituto Tecnologico Autonomo de Mexico (ITAM) and has a Masters and Phd from the University of California. Budebo was also coordinator of advisors for Secretary of Finance Francisco Gil Diaz, and coordinator of revenue and fiscal policy. In 1998, Budebo received an Economics Award from Banamex.

Appointments in Secretariat of Transportation and Communication (SCT)

¶14. (U) Secretary of Transportation and Communication Luis TQllez Kuenzler has named his under secretaries. Manuel Rodriguez Arregui, Under Secretary of Transportation, has

experience in public and private sector infrastructure projects. He was Director General of Studies in the Secretariat of Agriculture where he designed programs to

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support agricultural producers and alleviate poverty. He studied economics at Massachusetts Institute of Technology (MIT) and has a Master in Public Administration from Harvard.

Oscar de Buen Richkarday, Under Secretary for Infrastructure, has been working in SCT for 25 years. He has a degree in civil engineering from Universidad Nacional Autonoma de Mexico (UNAM) and has a Master of Science with specialization in transportation from MIT. In SCT, he has served as Chief of the Highway Unit and Director General of Highway Development. He was responsible for the design of the new concession scheme launched by the Fox administration. Rafael del Villar Alrich, Under Secretary for Communications, had been working for the Bank of Mexico since 1996. He holds a Bachelors degree in economics from ITAM and earned a Masters and a PhD from the University of Pennsylvania. He has also worked for the Organization for Economic Cooperation and Development (OECD). He previously worked for SCT as Director General of Telecommunications and International Policy from 1995-1996.

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